

**Township of Locke
Ingham County, Michigan**

FINANCIAL STATEMENTS

March 31, 2008

Township of Locke
Ingham County, Michigan
March 31, 2008
BOARD OF TRUSTEES

Paul Griffes	Supervisor
Dorothy Hart	Clerk
Charles Galbreath	Treasurer
Larry Schulz	Trustee
Christine McGoron	Trustee

Township of Locke
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Principals

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Steven R. Kirinovic, CPA
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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Locke
Ingham County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Township of Locke, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Township of Locke, Michigan as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 14, 2008

BASIC FINANCIAL STATEMENTS

Township of Locke

STATEMENT OF NET ASSETS

March 31, 2008

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 339,329
Accounts receivable	475
Taxes receivable	4,296
Due from other governmental units	<u>17,953</u>
Total current assets	362,053
Noncurrent assets	
Capital assets not being depreciated	120,977
Capital assets, net of accumulated depreciation	<u>74,833</u>
Total noncurrent assets	<u>195,810</u>
TOTAL ASSETS	557,863
LIABILITIES	
Current liabilities	
Accounts payable	3,523
Other accrued liabilities	527
Due to other governmental units	<u>1,351</u>
TOTAL LIABILITIES	<u>5,401</u>
NET ASSETS	
Invested in capital assets	195,810
Unrestricted	<u>356,652</u>
TOTAL NET ASSETS	<u>\$ 552,462</u>

See accompanying notes to financial statements.

Township of Locke
STATEMENT OF ACTIVITIES
Year Ended March 31, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contribution	
Governmental activities				
General government	\$ 139,171	\$ 46,174	\$ -	\$ (92,997)
Public safety	7,061	-	-	(7,061)
Public works	32,655	-	4,347	(28,308)
Community and economic development	12,352	-	-	(12,352)
Total governmental activities	<u>\$ 191,239</u>	<u>\$ 46,174</u>	<u>\$ 4,347</u>	(140,718)
		General revenues		
		Property taxes		52,673
		State shared revenue		114,254
		Investment earnings		26,559
		Miscellaneous		<u>1,559</u>
		Total general revenues		<u>195,045</u>
		Change in net assets		54,327
		Net assets, beginning of the year		<u>498,135</u>
		Net assets, end of the year		<u>\$ 552,462</u>

See accompanying notes to financial statements.

Township of Locke

GOVERNMENTAL FUND BALANCE SHEET

March 31, 2008

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 339,329
Accounts receivable	475
Taxes receivable	4,296
Due from other governmental units	<u>17,953</u>
TOTAL ASSETS	<u><u>\$ 362,053</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 3,523
Other accrued liabilities	527
Due to other governmental units	<u>1,351</u>
TOTAL LIABILITIES	5,401
FUND BALANCE	
Unreserved - undesignated	<u>356,652</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 362,053</u></u>

See accompanying notes to financial statements.

Township of Locke

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2008

Total fund balance - governmental fund \$ 356,652

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 240,726	
Accumulated depreciation is	<u>(44,916)</u>	
Capital assets, net		<u>195,810</u>
Net assets of governmental activities		<u><u>\$ 552,462</u></u>

See accompanying notes to financial statements.

Township of Locke

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended March 31, 2008

	<u>General</u>
REVENUES	
Taxes	\$ 80,905
Licenses and permits	8,839
Intergovernmental	118,601
Charges for services	5,288
Interest and rents	30,374
Other	<u>1,559</u>
TOTAL REVENUES	245,566
EXPENDITURES	
Current	
General government	255,849
Public safety	7,061
Public works	32,655
Community and economic development	<u>12,352</u>
TOTAL EXPENDITURES	<u>307,917</u>
NET CHANGE IN FUND BALANCE	(62,351)
Fund balance, beginning of year	<u>419,003</u>
Fund balance, end of year	<u><u>\$ 356,652</u></u>

See accompanying notes to financial statements.

Township of Locke

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2008

Net change in fund balance - governmental fund \$ (62,351)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	131,490	
Depreciation expense	<u>(14,812)</u>	
Capital outlay in excess of depreciation expense		<u>116,678</u>

Change in net assets of governmental activities \$ 54,327

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Locke, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Ingham County. The Township operates under an elected Township Supervisor and an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and two (2) Trustees and provides services to its residents in many areas including general government, maintenance of highway, streets and bridges, and community enrichment.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 30); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Township of Locke. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of Locke Township contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's only governmental fund. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The General Fund budget shown as required supplementary information to the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a functional level through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between accounts within the fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted and amended by the Township Board during the year. The amendments to the originally adopted budget were not material.

6. Cash and Cash Equivalents

Cash consists of savings and checking accounts. Cash equivalents include certificates of deposit with an original maturity of less than 90 days from the date of purchase. All certificates of deposit are stated at approximate fair value.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Due From Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan for State revenue sharing collected that is still owed to the Township.

8. Capital Assets

Capital assets consist of land, buildings and improvements, and machinery and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	10 to 20 years
Office equipment	7 to 20 years
Computer equipment	7 years

9. Property Tax

Locke Township bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied twice per year. A summer tax is levied on July 1 and a winter tax is levied on December 1. The tax levies are due September 14 and February 14, respectively. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Ingham County Treasurer on March 1 of the year following the levy. The Ingham County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service. For the year ended March 31, 2008, the Township levied 0.7825 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2007 levy for property within the Township was \$66,693,906.

10. Comparative Data

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2008, the carrying amount of the Township's deposits was \$339,329 and the bank balance was \$398,847.

Deposits of the Township are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Township. As of March 31, 2008, the Township accounts were insured by the FDIC for \$244,857 and the amount of \$153,990 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2008, the Township did not have any investments that would be subject to rating.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE B: CASH AND CASH EQUIVELANTS - CONTINUEDInterest rate risk

The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio in a manner to attain a market rate of return throughout the budgetary and economic cycles while preserving and protecting capital.

Concentration of credit risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio to prevent over concentration of assets in a specific maturity, individual financial institution, or specific class of securities.

Custodial credit risk

The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by limiting investments to the types of securities listed in the Township's investment policy, and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Township will do business in accordance with the Township's investment policy.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008 was as follows:

Governmental activities

	Balance April 1, 2007	Additions	Deletions	Balance March 31, 2008
Capital assets not being depreciated:				
Land	\$ 2,837	\$ 118,140	\$ -	\$ 120,977
Capital assets being depreciated:				
Buildings	15,000	-	-	15,000
Building improvements	57,302	1,340	-	58,642
Office equipment	13,194	3,485	-	16,679
Machinery and equipment	<u>29,053</u>	<u>8,525</u>	<u>(8,150)</u>	<u>29,428</u>
Total capital assets being depreciated	114,549	13,350	(8,150)	119,749
Less accumulated depreciation for:				
Buildings	(15,000)	-	-	(15,000)
Building improvements	(10,433)	(3,576)	-	(14,009)
Office equipment	(8,875)	(1,426)	-	(10,301)
Machinery and equipment	<u>(3,946)</u>	<u>(2,543)</u>	<u>883</u>	<u>(5,606)</u>
Total accumulated depreciation	<u>(38,254)</u>	<u>(7,545)</u>	<u>883</u>	<u>(44,916)</u>
Net capital asses being depreciated	<u>76,295</u>	<u>5,805</u>	<u>(7,267)</u>	<u>74,833</u>
Capital assets, net	<u>\$ 79,132</u>	<u>\$ 123,945</u>	<u>\$(7,267)</u>	<u>\$ 195,810</u>

Depreciation expense was charged to the general government activity on the statement of activities.

Township of Locke

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE C: CAPITAL ASSETS - CONTINUED

The current year depreciation expense of \$7,545 has been adjusted by \$7,267 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

NOTE D: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan, with other municipalities for various risks of loss including employer's liability, wrongful acts liability, governmental medical liability, employee benefits liability, cemetery professional liability, and auto liability. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The Township carries commercial insurance for the risk of loss due to workers' compensation claims.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Locke

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes				
Current property taxes	\$ 50,000	\$ 50,000	\$ 52,673	\$ 2,673
Tax administration fees	22,500	22,500	25,749	3,249
SET collection reimbursements	2,500	2,500	2,483	(17)
Total taxes	75,000	75,000	80,905	5,905
Licenses and permits				
Building permit fee	5,000	5,000	7,573	2,573
Zoning permit fee	2,500	2,500	1,266	(1,234)
Total licenses and permits	7,500	7,500	8,839	1,339
Intergovernmental				
METRO grant	3,000	3,000	4,347	1,347
State revenue sharing	112,000	112,000	114,254	2,254
Total intergovernmental	115,000	115,000	118,601	3,601
Charges for services				
Cemetery burial	3,000	3,000	4,088	1,088
Cemetery lots	1,200	1,200	1,200	-0-
Total charges for services	4,200	4,200	5,288	1,088
Interest and rents				
Interest	12,000	12,000	26,559	14,559
Rent	4,000	4,000	3,815	(185)
Total interest and rents	16,000	16,000	30,374	14,374
Other revenue				
Reimbursements	4,000	4,000	1,559	(2,441)
TOTAL REVENUES	221,700	221,700	245,566	23,866

Township of Locke

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
Current				
General government				
Township board	\$ 119,526	\$ 141,726	\$ 137,890	\$ 3,836
Supervisor	10,860	10,860	10,138	722
Elections	5,075	5,075	2,371	2,704
Assessor	14,050	14,050	12,562	1,488
Clerk	29,195	29,195	23,802	5,393
Board of review	1,095	1,095	1,056	39
Treasurer	17,705	17,705	16,184	1,521
Buildings/grounds	29,385	29,385	29,131	254
Cemetery	18,580	20,080	17,268	2,812
Planning	7,095	7,095	5,447	1,648
Total general government	252,566	276,266	255,849	20,417
Public safety				
Inspections	9,000	9,000	6,561	2,439
Fire protection	500	500	500	-0-
Total public safety	9,500	9,500	7,061	2,439
Public works				
Drains at large	7,000	11,900	11,828	72
Road maintenance	50,000	21,400	20,827	573
Total public works	57,000	33,300	32,655	645
Community and economic development				
Zoning	13,475	13,475	12,352	1,123
TOTAL EXPENDITURES	332,541	332,541	307,917	24,624
NET CHANGE IN FUND BALANCE	(110,841)	(110,841)	(62,351)	48,490
Fund balance, beginning of year	419,003	419,003	419,003	-0-
Fund balance, end of year	\$ 308,162	\$ 308,162	\$ 356,652	\$ 48,490

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

Members of the Township Board
Township of Locke
Ingham County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Locke Township as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated August 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Locke Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. The annual audited financial statements for the year ended March 31, 2008 for the Township required significant audit adjustments.

The staff at the Township of Locke understands substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process.

We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

East Lansing ▪ Rochester Hills ▪ St. Johns

MANAGEMENT DISCUSSION AND ANALYSIS

The Township has not presented a management's discussion and analysis. The Governmental Accounting Standards Board (GASB) has determined that it is necessary for governmental entities to supplement their basic financial statements with a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year.

It has historically been common for many small governments to omit a MD&A. As a result, management's understanding and view of the financial statements are not readily available for a reader's consumption. Because the Township has not presented a management's discussion and analysis, an explanatory paragraph has been added to the Independent Auditor's Report on the Township's financial statements. We are communicating these circumstances as required by professional standards.

We recommend the Township Board consider the benefits of preparing a MD&A as well as the related costs to do so.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily identify all deficiencies in internal control that might be considered to be material weaknesses. We believe that the following significant deficiency to be a material weakness in internal controls over financial reporting.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries for the proper recognition of various aspects throughout the general ledger were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting. These entries included audit adjustments to adjust the cash basis records to modified accrual basis in accordance with generally accepted accounting principles.

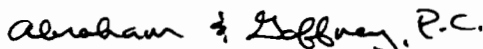
Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls. Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Township's internal controls.

We recommend that the Township take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters.

This report is intended solely for the information and use of management and Members of the Township Board of the Township of Locke, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

 Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 14, 2008